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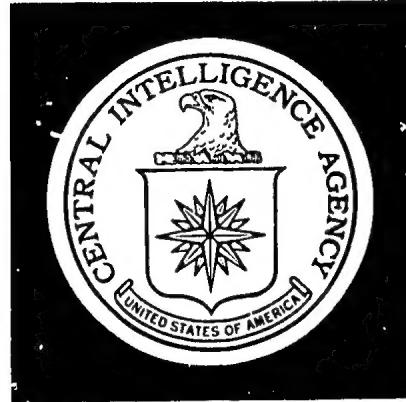
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DIRECTORATE OF
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Intelligence Memorandum

The Asian Economic Presence in East Africa

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CENTRAL INTELLIGENCE AGENCY
 Directorate of Intelligence
 July 1968

INTELLIGENCE MEMORANDUM

The Asian Economic Presence in East AfricaSummary

Thousands of Asians* have been leaving East Africa during the past six months because of the accelerated programs to replace Asians with Africans in business and government. Thus far, there have been only minor economic disruptions in Kenya, Uganda, and Tanzania. Although the East African governments will continue to pressure Asians to leave, they are unlikely to pursue their efforts to the point where their economies would be seriously hurt. This would almost certainly occur if the Asians left rapidly, because they provide most of the skilled manpower in East Africa.

Asians have played an important role in the economy of East Africa for the past half century. They dominate rural and urban commerce, control a wide range of manufacturing firms, and hold various skilled positions in government and business. Generally, they perform the middle-level tasks between the managerial positions held by Europeans, mostly British, and the unskilled jobs occupied by Africans. Although the Asian community of about 380,000 comprises slightly more than 1 percent of the population, it earns about one-fifth of the wages. Asian per capita wages are some five times those of the Africans but only about one-third those of the European wage earner.

* Throughout this memorandum, the term Asian refers to people of the Indian subcontinent -- that is, Indians, Pakistanis, and Goans.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

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After Kenya, Tanzania, and Uganda became independent in the early 1960's, the new governments tried to increase African participation in the modern sectors of their economies. The impact of these Africanization efforts was felt mostly by the Asians who occupied the jobs most readily attainable by Africans. Initially, only the civil service was successful in increasing job opportunities for Africans. By 1967, however, pressures for jobs in the private sector, particularly in Kenya, where more than one-half of East Africa's Asians reside, had grown more intense.

Stronger measures were adopted by Kenya in 1967, including legislation to reduce Asian participation in the economy. Asians were subjected to a system of work permits and other requirements that caused some of them to lose their jobs. Asian workers became increasingly concerned about their job security in Kenya. The plight of the Asians worsened later that year when London decided to restrict the previous unlimited flow to the United Kingdom of Asians holding British passports. Under this dual pressure, some 12,000 Kenya Asians, or about 6 percent of the country's Asian community, departed for the United Kingdom before the British legislation became effective in March. During the same period, about 1,000 Asians from Uganda also migrated to the United Kingdom.

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CONFIDENTIALThe Role of the Asians in East Africa

1. The present Asian community in East Africa consists largely of descendants of Indian laborers and soldiers introduced into the area by the British during the late 19th and early 20th centuries. At the turn of the century, thousands of Indians were imported to construct a railroad from the coast of Kenya to Lake Victoria, and during World War I Indian-manned British military units were moved to East Africa to assist in capturing the German colony of Tanganyika. In both cases, most of the Indians stayed on because they found economic opportunities greater than those at home. Through additional immigration and natural growth, the number of Asians in East Africa (now Kenya, Tanzania, and Uganda) rose to an estimated 380,000 persons in 1967. The only other large Asian community on the continent is in South Africa where there are some 500,000 Asians.

2. Although accounting for slightly more than 1 percent of the population, the Asians have played an important role in the economy of East Africa. Basically they filled the gap between the Europeans who owned or managed most of the area's major commercial enterprises and the Africans who participated in the modern economy mainly as unskilled laborers or as small-scale producers of cash crops (see Figure 1). Many of the early Asian settlers became rural traders, buying African-grown produce and selling imported consumer goods. They became important links in the East African distribution system and provided services that no one else was willing or able to perform. The small turnover of the rural trader meant the acceptance of a lower standard of living than most Europeans were willing to accept, while few Africans had the experience or the desire to become involved in commercial pursuits. For the same reasons, Asians also filled numerous clerical positions in government and business. Asian involvement in East Africa's basic productive sector, agriculture, remained minimal, however, since the Asians disliked farming; furthermore, during the colonial period, restrictions were placed on acquisition of land by Asians.

3. Over the years, both the Asians and the Africans improved their economic positions. A steadily increasing number of Africans became rural

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traders, while many village Asians sold their shops to younger Asians and moved to the cities where they soon dominated urban trade. Even though about three-quarters of the Asians now live in urban areas, those who remained in the countryside continue to dominate rural trade. Some Asians rose to high positions in the government while others established industrial enterprises. By and large, however, the Asians still occupy the jobs between the highly skilled Europeans and the unskilled Africans. This position is indicated by the average annual wage received by each of the three groups in Kenya in 1966: Europeans \$5,430; Asians \$1,900; and Africans \$370 (see Figure 2).

4. The present East African Asian community is a vital element in the functioning of the cash economy of the region. The Asians are important as supervisors of the unskilled workers, and they provide the mechanical and artisan skills for industry and construction. Departure of significant numbers of Asians would cause severe economic disruptions throughout the region, as the three countries would be hard pressed to find immediate replacements from among local Africans for the occupational skills lost. Trade at all levels would drop off considerably. Because Asians operate much of the transport network, shipments would fall behind schedule if delivered at all. Financial institutions would be unable to maintain efficiency, and this would have adverse repercussions throughout the business community. Loan applications, for example, would take longer to process. Since about one-half of development revenue is derived from local sources, a withdrawal of Asian capital would further reduce East Africa's already limited investment base. Moreover, foreign companies would be less apt to invest in the resulting stagnant economies.

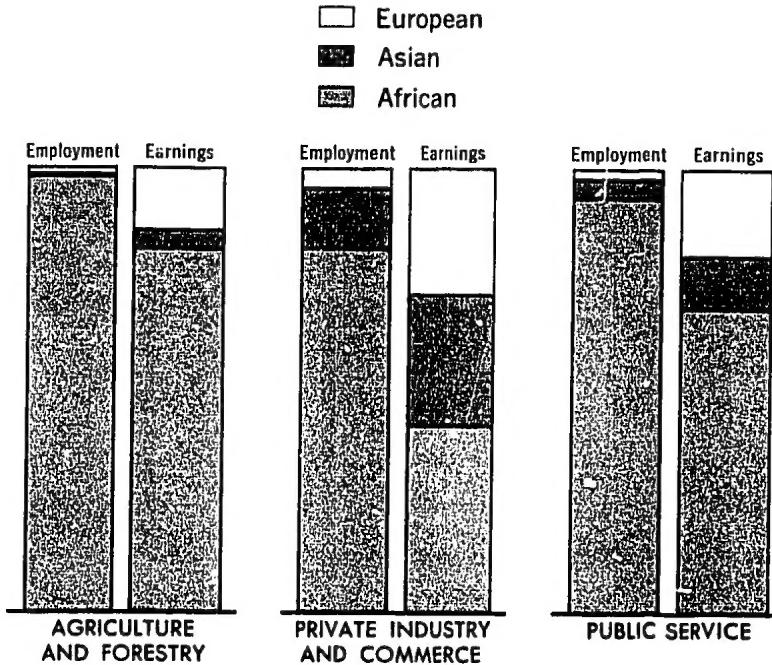
Africanization

5. Soon after the East African countries gained their independence in the early 1960's, they attempted to replace non-Africans with Africans in both the private and public sectors. The Asians were most vulnerable to this government policy of Africanization. As the rural traders, city retailers, and lower level office workers, they held positions that Africans could most easily assume.

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KENYA: Percent Distribution of Employment and Earnings, 1966

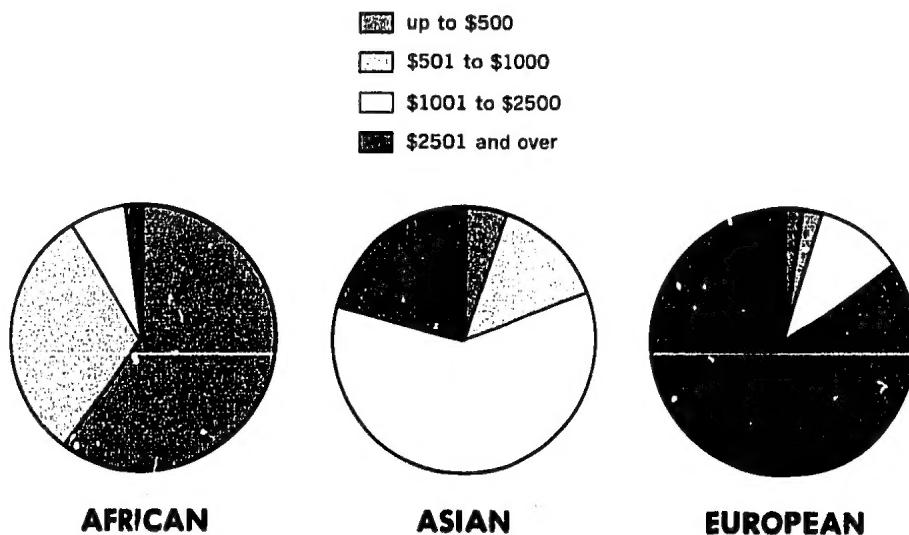
Figure 1



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Figure 2

KENYA: Percent Distribution of Male Earnings*, 1966



*Excluding the Agricultural Sector

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6. Resentment against the Asians rose because they generally remained within their own communities, and only 30 percent associated themselves with their new countries by taking out citizenship. In Kenya and Uganda, only about one-sixth of the Asians accepted local citizenship. In Tanzania, however, the proportion was about one-half because many of the Asians in Tanzania belonged to the Ismaili Moslem sect, led by the Aga Khan, who encouraged his followers to become local citizens. Those East African Asians who did not take out local citizenship received British passports.

Africanization in Kenya

7. About half of the East African Asians live in Kenya because of the greater economic opportunities there. The concentration of British commercial interests in Kenya has made that country by far the most economically advanced in East Africa, and Nairobi has become the hub of regional financial and trade activities.

8. Until 1967, Nairobi's efforts to find more jobs for Africans had been generally uncoordinated. Employers were asked to hire more Africans and to upgrade those already working. Although many business firms did try to comply, new positions for Africans were restricted by the limited growth of total employment -- only about 1 percent per year. Moreover, there were few Africans adequately trained to replace the Europeans and Asians in middle-level and high-level positions in most enterprises. The only progress made in replacing non-Africans occurred in the bureaucracy, where most African university graduates seek jobs.

9. In mid-1967, two complementary bills were introduced into the National Assembly to further the process of Africanization. The first of these, the Immigration Act, went into effect in December 1967. Under this legislation, the government has the power to reduce the number of non-citizen workers in any occupational category. The second of these bills, the Trade Licensing Act of 8 January 1968, contains legislation designed to speed up Africanization among the numerous self-employed traders. They were required

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to apply for trade licenses before 1 April 1968, and government sources indicated that licensing officials normally would deny licenses to non-citizens who operated shops outside the centers of Kenya's six major towns.

10. Soon after Nairobi's intentions became known in mid-1967, the British government began to draft legislation to prevent any mass movement of Kenyan Asians to the United Kingdom. Aware of both the impending Kenyan and UK legislation, Asians in increasing numbers began to migrate to the United Kingdom. When in early 1968 Kenya began implementing its new Africanization measures, the outflow quickened and continued to accelerate as the Commonwealth Immigration Act neared passage in the British Parliament. In the few weeks before the latter legislation became effective on 2 March 1968, panic set in, and the exodus completely overtaxed the Kenyan-UK transport links. In all, the outflow during the first two months of 1968 was about 12,000 persons, or about 6 percent of the total Kenyan Asian community. Most of the departees came from the large Asian communities of Nairobi and Mombasa rather than the rural areas and were largely lower level office and shop clerks. Several hundred professionals also migrated to the United Kingdom.

Short-Term Impact on Kenya

11. Thus far the outflow of Asians has had only minor adverse consequences for the Kenyan economy, and most of these have been of a temporary nature. Trade has slowed somewhat, and merchants who stayed have reduced stocks. Real property values in some predominantly Asian sections of Nairobi dropped because of a rising number of vacant homes. The loss of skilled and professional personnel was not large enough, however, to have a serious effect on the economy. Although certain firms have been hard hit by the loss of personnel, they have adjusted by increasing overtime work and by permitting a decline in efficiency.

12. Kenya's foreign exchange losses resulting from the migration apparently were not large either, although there could have been a loss of at least \$50 million if departure allowances of \$14,000 per family had been fully utilized. Such a drawdown

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would have almost wiped out Kenya's reserves. The Asians who left, however, probably did not have such large cash reserves on hand. Either they were poor, or they had anticipated government measures and for several years had been transferring their profits overseas. Kenya's foreign exchange reserves at the end of February 1968 were over \$72 million, or 15 percent higher than at the same time in 1967.

Asians in Uganda and Tanzania

13. The economic involvement of Asians in Uganda is proportionately greater than in Kenya. Because most of Uganda's agricultural output is produced by small-scale African farmers -- the reverse of Kenya where production of cash crops comes from large-scale European farms -- the rural trader in Uganda has an even more important economic role than in Kenya. East Africa's largest industrial organization is the Uganda-based, Asian owned and controlled Madhvani Group, which with its diversified industries contributed about 10 percent of Uganda government revenues. Some of its associated firms are involved in manufacturing steel, textiles, beer, and sugar.

14. Ugandan officials, with few exceptions, have not tried to stir up trouble for the Asians and have been bribed to maintain a hands-off policy. Well-publicized and timely gifts to charities have been used by Asian businessmen to better their positions, while unrepaid loans to African officials have served as protection money. The government, however, has taken a positive step by establishing a Management Training Center to assist Africans in starting businesses and has created the state-owned National Trading Corporation, which is increasing its control over wholesale and retail trade. As a result of growing uncertainties, an estimated 1,000 Asians left Uganda during the first two months of 1968 and entered the United Kingdom before the Commonwealth Immigration Act went into effect.

15. Tanzania's Asians control many food-processing plants and sisal plantations and dominate both rural and city trade. The Asian community has supported President Julius Nyerere, whose stated policy of maintaining a multi-racial society has somewhat brightened Asian prospects for continuing to participate in the economy. Thousands of Asians, however, have left the Zanzibar portion of Tanzania

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since 1964 because of the nationalization measures adopted after the revolution. In addition, overzealous government officials, spurred by Nyerere's requests for greater utilization of Africans by Asian firms, engaged in excessive police and immigration harassment, and about 1,000 Asians -- less than 2 percent of the total -- left the mainland early in 1967. Since then, outflows have been small. Tanzania's nationalization of private businesses in 1967 eliminated some Asian as well as British firms. Most Asians, however, who owned or were employed by firms that were nationalized continued to work for the state.

Prospects

16. The East African governments are likely for political reasons to continue their programs of replacing Asians with Africans. Pressure for Africanization will come mainly from the increasingly large number of persons leaving school, who will be unable to find jobs in the urban areas. Even if the three East African countries achieve high rates of economic growth, many of the unemployed will remain so because there will not be enough Africans with the skills required to fill most of the new jobs, at least for the foreseeable future.

17. On the other hand, it is unlikely that the governments would permit a violent or mass expulsion of the Asians, because of both the economic consequences and the blot it would place on their political image abroad. If most Asians were forced to leave precipitately, economic disruptions would be substantial. Trade would break down, and artisan and mechanical skills would be greatly reduced. The countries might relieve some of the resulting problems by contracting for expatriate personnel, but even this would not insure a return to normalcy for some time.

18. Over the next several years, Africanization programs are likely to go through cycles, varying from an accelerated pace to periods where the laws are hardly enforced. Complete implementation of the 1967 acts has been delayed. Asians no longer will be able to depend on migrating to the United Kingdom,

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and with this alternative lost they will have to seek ways of appeasing the African-run governments through such means as bringing more Africans into higher positions in their businesses.

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